



# PAN CANA

INDUSTRIES LTD.

CONSTRUCTION

DRILLING

ELECTRONICS

FISHERIES

GEOPHYSICAL

HEAVY EQUIPEMENT

1971  
ANNUAL  
REPORT





## ANNUAL MEETING

The Annual Meeting of the Company will be held at the Holiday Inn, Eighth Avenue and Sixth Street, S.W., Calgary, Alberta, on May 12th, 1972, at 10:00 in the forenoon.

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



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#### CODE OF OPERATIONS:

-  MACKENZIE VALLEY TOLL ROAD  
FORT SIMPSON TO INUVIK, N.W.T.
-  DRILLING LOCATIONS
-  GEOPHYSICAL LOCATIONS
-  CONSTRUCTION LOCATIONS
-  WESTERN ELECTRONIC SYSTEMS LOCATIONS



#### OFFICES:

- CALGARY — 1. PanCana Industries Ltd.  
2. Northern Geophysical Ltd.  
3. Western Electronic Systems  
4. Jennings International Drilling  
5. PanCana-Associated Contractors Ltd.

- EDMONTON — 1. North West Commercial Sales Ltd.  
2. Bain Bros. Construction  
3. Jennings International Drilling

VANCOUVER — Northland Commercial Sales Ltd.

MONTREAL — Dorval Tractor Ltd.



# PAN CANA

## INDUSTRIES LTD.

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### DIRECTORS:

DELMER BAIN  
FRED C. BRECHTEL  
DALE E. FICKINGER  
KENDALL JENNINGS  
EDMUND E. KUHN  
PATRICK J. McCAFFERY  
DAVID B. NICHOLSON  
ARNOLD J. STROM  
JACK F. TROTTER

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### OFFICERS:

KENDALL JENNINGS	President & Chief Executive Officer
DELMER BAIN	Vice-President & General Manager Construction Division
DONALD C. BOUTWELL	Vice-President (Sales)
FRED C. BRECHTEL	Vice-President (Corporate Planning & Business Development)
DALE E. FICKINGER	Vice-President (Foreign Operations & Special Projects)
DAVID B. NICHOLSON	Secretary & Treasurer
JACK F. TROTTER	Vice-President & General Manager Geophysical Division

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## TO THE SHAREHOLDERS

The past year has been an eventful period for your Company, one that was characterized by management's determination to assess the long term profitability and growth of each division. As a consequence of this reassessment, two new divisions have been added, and one operation was discontinued.

During the year the addition of PanCana-Associated Contractors Ltd. and Strom Fisheries, Inc., brought new dimensions to the Company's operations and future earning capacity. Concurrent with this policy, we concluded that our Electronics Division would not meet our expectations, and therefore we terminated most of its operations.

The financial statements for the year reflect this transitional period of adjustment, for while gross revenues were 15% higher than the previous year, net profit amounted to \$108,000, or 3¢ per share, down from 29¢ per share in 1970. (See note 3 to Financial Statements). The actual earnings from continuing operations were 14¢ per share but by absorbing a loss from discontinued operations of \$335,000, the net earnings declined. The 1971 earnings are calculated on 3,195,000 issued shares including 550,000 shares issued for the addition of Strom Fisheries, Inc.

In subsequent pages of this report, we have described in some detail the operating performance of each division, with particular reference to our new operations. May I therefore briefly summarize the rationale which prompted your management to enter these new fields of corporate endeavour.

The acquisition of Strom Fisheries, Inc. from Tacoma Boatbuilding Co., Inc. was completed in 1971 and provides PanCana with an equity interest in five large, modern tuna fishing seiners. One boat of the fleet operated a full year and two others operated a short time in 1971. 1972 will see all five vessels operating a full year. As the world demand for tuna is increasing, we are confident that our Fisheries Division will continue to contribute in a meaningful way to our earning capacity. We are particularly pleased that Mr. Arnold J. Strom, President of Tacoma Boatbuilding Co., Inc., will now join our Board of Directors.

While the addition of Strom Fisheries serves to diversify our corporate endeavour, the formation of a joint venture to enter the pipeline contracting field is a natural extension of our oil field service program. In 1971 we concluded an agreement with Associated Pipe Line Contractors of Houston, Texas, to form a joint venture Canadian company known as PanCana-Associated Contractors Ltd. The rationale of this decision was essentially prompted by our market studies of the "big inch" pipelines yet to be constructed in Canada, for it is estimated that within the next ten years more miles of pipe will be laid in Canada than in any other petroleum producing country.

The potential MacKenzie Valley Pipe Line Route, the Arctic Islands transmission system expected to be needed and the many transmission systems required in Southern Canada to deliver petroleum products to consumers and industry on this continent offers perhaps the greatest market opportunity in the petroleum industry today. Your management therefore decided to join with one of the most experienced companies in this field, and with the support of our Heavy Equipment and Construction Divisions, we are satisfied that this new thrust will add considerably to our growth and earnings in the years ahead.



In the approximately 30 months since our formation, we believe that PanCana has now matured into one of Western Canada's larger industrial and service oriented companies. Our actions during the past year to strengthen the profit margin will be continued, and we are confident that the result of this policy will be reflected in future annual statements.

On behalf of your Board, I should like to thank all our employees for their continued loyalty and individual contributions to our company.

*Kendall Jennings*

Chairman



# PAN CANA

## INDUSTRIES LTD.

AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENT OF EARNINGS

		Year Ending December 31,	
	Notes	1971	1970 (Note 3)
REVENUE	4	\$18,268,009 ✓	\$15,901,743 ✓
COST AND EXPENSES	4		
Cost of sales and direct contract costs		14,813,970	11,842,319
General and administration		1,675,504	1,673,013
Depreciation and depletion		567,611	546,824
Interest on long-term debt		220,290	161,850
Other interest		324,617	168,147
		<u>17,601,992</u>	<u>14,392,153</u>
EARNINGS BEFORE INCOME TAXES AND LOSS ON DISCONTINUED OPERATIONS		<u>666,017</u>	<u>1,509,590</u>
INCOME TAXES	5		
Current		437,734	(219,297)
Deferred		(214,611)	730,438
		<u>223,123</u>	<u>511,141</u>
EARNINGS FROM CONTINUING OPERATIONS		442,894	998,449
LOSS ON DISCONTINUED OPERATIONS, net of tax effect	4	<u>334,521</u> ✓	<u>61,702</u> ✓
NET EARNINGS		<u>\$ 108,373</u> ✓	<u>\$ 936,747</u> ✓
EARNINGS PER SHARE			
Continuing operations		14 ¢	31 ¢
Loss on discontinued operations		(11) ¢	(2) ¢
		<u>3 ¢</u>	<u>29 ¢</u>

### CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1971	1970 (Note 3)
RETAINED EARNINGS at beginning of year	\$2,582,374	\$2,070,627
Net Earnings	<u>108,373</u>	<u>936,747</u>
	2,690,747	3,007,374
Dividends paid by Strom Fisheries, Inc. prior to combination with PanCana Industries Ltd.	<u>1,140,803</u>	<u>425,000</u>
RETAINED EARNINGS at end of year	<u>\$1,549,944</u>	<u>\$2,582,374</u>

# PAN CANA

## INDUSTRIES LTD.

AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31,	
	1971	1970 (Note 3)
SOURCE OF FUNDS		
Continuing operations, after adjustment for non-cash items	\$ 635,199	\$2,275,711
Increase in long-term debt (net)	511,954	—
Disposal of fixed assets (net)	201,528	—
Other	40,802	—
	<u>1,389,483</u>	<u>2,275,711</u>
APPLICATION OF FUNDS		
Investment in associated companies	—	103,140
Fixed asset additions (net)	—	679,423
Reduction in long-term debt (net)	—	356,477
Research and development expenditures	—	217,065
Loss on discontinued operations, after adjustment for non-cash items	502,288	121,940
Dividends paid by Strom Fisheries, Inc. prior to combination with PanCana Industries Ltd.	1,140,803	425,000
Other	—	37,305
	<u>1,643,091</u>	<u>1,940,350</u>
WORKING CAPITAL (DECREASE)		
INCREASE	<u>\$ (253,608)</u>	<u>\$ 335,361</u>



ASSETS	Notes	December 31,	
		1971	1970 (Note 3)
CURRENT ASSETS			
Cash		\$ 121,780	\$ 1,181,727
Accounts receivable		3,446,435	2,910,033
Inventories	6	4,398,962	2,947,622
Prepaid expenses and deposits		184,952	53,536
		<u>8,152,129</u>	<u>7,092,918</u>
INVESTMENT IN ASSOCIATED COMPANIES			
at cost plus undistributed earnings	2	217,850	103,140
FIXED ASSETS, at cost less accumulated depreciation and depletion	2 & 7	4,109,740	4,859,712
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER THEIR BOOK VALUE		2,921,624	2,921,624
RESEARCH AND DEVELOPMENT, at cost less amounts written off		100,000	308,199
OTHER ASSETS		151,162	162,219

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

*Kendall Jennings* Director

*DB Nicholson* Director

\$15,652,505

\$15,447,812



# CANA

## IES LTD.

### Y COMPANIES

#### ALANCE SHEET

LIABILITIES	Notes	December 31,	
		1971	1970 (Note 3)
CURRENT LIABILITIES			
Bank indebtedness	9	\$ 1,589,036	\$ 1,284,470
Accounts payable		3,620,242	3,235,908
Current maturities of long-term debt	2 & 8	325,000	225,000
Income taxes	5	573,939	50,020
		<u>6,108,217</u>	<u>4,795,398</u>
LONG-TERM DEBT	8	2,215,259	1,703,305
DEFERRED INCOME TAXES		<u>852,873</u>	<u>1,440,523</u>
		9,176,349	7,939,226
SHAREHOLDERS' EQUITY			
CAPITAL STOCK			
Authorized 10,000,000 common shares of no par value			
Issued and to be issued 3,195,000 common shares	3 & 10	4,926,212	4,926,212
RETAINED EARNINGS		<u>1,549,944</u>	<u>2,582,374</u>
		6,476,156	7,508,586
		<u>\$ 15,652,505</u>	<u>\$ 15,447,812</u>



## NOTES TO FINANCIAL STATEMENTS

### 1. CHANGE OF NAME

On May 6, 1971, the Company changed its name from Western Electronics & Engineering Ltd. to PanCana Industries Ltd.

### 2. ACCOUNTING POLICIES

Accounting policies followed by the Company are as follows:

#### (a) Principles of Consolidation

The consolidated financial statements include financial statements of all operating Divisions of the Company for the year ended December 31, 1971 as follows:

Construction Division	— Bain Bros. Construction
Drilling Division	— Jennings International Drilling
Electronics Division	— Western Electronic Systems
	— Western Basic Automation Systems
Heavy Equipment Division	— North West Commercial Sales Ltd.
	— Northland Commercial Sales Ltd.
	— Dorval Tractor Ltd.
Fisheries Division	— Strom Fisheries, Inc.
Geophysical Division	— Northern Geophysical Ltd.
Pipeline Division	— PanCana-Associated Contractors Ltd.

All divisions are wholly owned except as noted below.

Dorval Tractor Ltd. is a joint venture company of which PanCana owns one third. PanCana's share of the results of this company have been included in the consolidated financial statements.

Strom Fisheries is a minority shareholder in a number of operating fishing companies. The investment in these companies has been accounted for on the equity basis under which Strom Fisheries has included in its revenue and expenses the appropriate part of the revenue and expenses of each of the operating companies.

PanCana-Associated Contractors Ltd. is owned 51% by PanCana Industries Ltd.

Reference is made to Notes 3 and 4.

#### (b) Depreciation and Depletion

Depreciation is provided on a straight line basis at rates which will amortize the cost of the assets over their estimated useful lives, recognizing residual values where appropriate.

Depletion is provided on the unit of production method so that the cost of the asset is amortized over the period of production.

#### (c) Current Maturities of Long-term Debt

Where long-term debt is specifically secured by charges on revenue-producing assets and it is anticipated that future repayments of the debt will be made out of future revenue from the assets, no part of the debt is classified as a current liability. Where long-term debt is not specifically secured on revenue-producing assets, the payments due within twelve months are classified as current liabilities.

### 3. ACQUISITIONS AND NEW ACTIVITY

During the year the Company agreed to issue 550,000 common shares (17.2% of the shares outstanding after such issue) in exchange for the entire issued capital of Strom Fisheries, Inc. This transaction was accounted for on a pooling of interests basis.

Details of the "Acquisition Equation" as specified by the Ontario Securities Act are:

Book value of net assets of Strom Fisheries, Inc. as at December 31, 1971	\$ 267,850
Excess of consideration given over book value of net assets	<u>1,024,650</u>
Quoted market value of consideration given:	
550,000 common shares at \$2.35 per share	<u>\$ 1,292,500</u>

The net earnings (loss) for the two years ended December 31, 1971 of (i) the Company restated to give effect to the foregoing transaction and (ii) the Company excluding Strom Fisheries were:

	<u>Net Earnings (Loss)</u>	
	<u>Restated to include Strom Fisheries</u>	<u>Excluding Strom Fisheries</u>
Year ended December 31, 1970	\$ 936,747	\$ 517,449
Year ended December 31, 1971	\$ 108,373	\$ (34,977)



#### 4. DISCONTINUED ACTIVITIES

During 1971 and the early part of 1972 certain activities of the Electronics Division were discontinued. The losses sustained in these activities during 1970 and 1971, including provision for additional losses and write-downs in the early part of 1972 have been segregated from the results of the continuing activities and the net impact thereof shown separately in the Financial Statements. These results were:

	1971	1970
Revenue	\$1,165,951	\$ 721,558
Cost and expenses	<u>1,873,511</u>	<u>851,211</u>
	(707,560)	(129,653)
Tax relief thereon	<u>373,039</u>	<u>67,951</u>
Loss on discontinued operations	<u>\$ 334,521</u>	<u>\$ 61,702</u>

Under the terms of a joint venture agreement, part of these losses not exceeding approximately \$350,000 before taxation, may be recovered by way of future income. No part of such contingent income has been reflected in the financial statements.

#### 5. INCOME TAXES

##### (a) Fishing Operations

The earnings of the Fisheries Division which is based in Puerto Rico are exempt from Puerto Rican tax under the provisions of the Industrial Development Act. In the event that the earnings are remitted to Canada, a withholding tax of 29% becomes exigible. No provision has been made for such tax on 1971 earnings as the major part of the earnings has been utilized in the reduction of mortgage financing on the underlying fishing boats and is not therefore available for remittance. The remaining 1971 earnings of the operating fishing companies have not been distributed to the shareholders of those companies and there is no present intention of distributing these balances or of remitting them to Canada.

##### (b) Current Income Tax Liability

Of the \$573,939 shown as current income taxes payable \$187,950 represents income taxes payable during 1972. The balance of \$385,989 shown under this heading represents deferred taxes relating to inventory items included in current assets. In accordance with generally accepted accounting principles, this amount has been shown as a current liability although it is not payable within twelve months.

#### 6. INVENTORIES

Inventories are valued at the lower of cost and net realizable value and comprise:

Equipment held for sale	\$4,174,686
Work in progress, raw materials and miscellaneous supplies	<u>224,276</u>
	<u>\$4,398,962</u>

#### 7. FIXED ASSETS AND DEPRECIATION

Fixed assets comprise:

	1971			1970
	Cost	Depreciation & Depletion	Net	Net
Construction equipment	\$ 230,952	\$ 89,932	\$ 141,020	\$ 539,245
Drilling rigs & equipment	2,622,008	1,656,275	965,733	938,873
Geophysical exploration equipment	3,258,052	1,160,226	2,097,826	2,132,990
Workshop equipment	145,780	72,903	72,877	133,849
Petroleum and natural gas properties with development and equipment thereon				
Producing	351,576*	54,970	296,606	492,330
Non-producing	38,522	—	38,522	38,127
Land and buildings	211,772	35,124	176,648	434,372
Mackenzie Valley Toll Road	201,092	26,361	174,731	86,270
Miscellaneous	<u>176,602</u>	<u>30,825</u>	<u>145,777</u>	<u>63,656</u>
	<u>\$7,236,356</u>	<u>\$3,126,616</u>	<u>\$4,109,740</u>	<u>\$4,859,712</u>

\* The Company's producing petroleum and natural gas properties include interests in certain properties acquired in 1971 at a cost of \$1,500,000 and financed by a bank loan. The loan balance as at December 31, 1971, has been deducted from the cost of the properties. See Note 8.



## 8. LONG-TERM DEBT

Long-term debt comprises:

	1971		1970
	Current Portion	Total	Total
<b>PanCana Industries Ltd.</b>			
Royal Bank of Canada	\$ 100,000	\$1,000,000	—
Promissory notes issued in part payment of the purchase price of Northern Geophysical Ltd. payable in 3 equal annual instalments to 1974 with interest at 8% on the balance unpaid after October 15, 1972.	100,000	300,000	400,000
Promissory notes issued in part payment of the purchase price of North West Commercial Sales Ltd. and Northland Commercial Sales Ltd. payable in 4 equal annual instalments to 1975, with interest at 8% (Note 9). The noteholders may elect to receive shares of the Company at \$5 per share in lieu of the cash payment due.	125,000	500,000	625,000
Oil and gas production loan payable in monthly instalments of \$4,800 to 1974 (Note 9)	—	152,100	119,200
Chattel mortgages payable in monthly instalments of \$6,814 to 1972 (Note 9)	—	34,068	109,018
<b>Northern Geophysical Ltd.</b>			
Chattel mortgages payable in varying terms to 1974 (Note 9)	—	554,091	675,087
	<u>\$ 325,000</u>	<u>2,540,259</u>	<u>1,928,305</u>
Less current maturities (Note 2)		<u>325,000</u>	<u>225,000</u>
		<u>\$2,215,259</u>	<u>\$1,703,305</u>

The payments required in the next five years to meet instalments on the above debt are:

1972	\$ 777,447	1975	375,000
1973	524,643	1976	300,000
1974	563,169		

In addition to the long-term debt detailed above, PanCana Industries Ltd. is indebted to its bankers to the extent of \$1,500,000 as at December 31, 1971. This bank loan was incurred in connection with the acquisition of certain petroleum and natural gas properties. Since the bank loan is secured by the acquired properties and is expected to be repaid during 1972 and 1973 exclusively from production proceeds to be received therefrom, the loan balance has been deducted from the cost of the properties.

## 9. ASSETS SUBJECT TO LIEN OR PLEDGE

The bank indebtedness is secured by a general assignment of book debts and a floating charge debenture in favour of the Company's bankers. This debenture contains certain restrictions as to the maintenance of minimum working capital and requires the approval of the bank prior to the payment of any dividends.

Certain of the Company's properties are charged to secure oil and gas production loans and the convertible promissory notes. The drilling rigs and certain seismic exploration equipment and vehicles are charged under the chattel mortgages.

## 10. CAPITAL STOCK

During the year the Company agreed to issue 550,000 shares in exchange for the entire issued capital of Strom Fisheries, Inc. (See Note 3).

The following shares are reserved:

129,700	Shares for stock options to employees (including Officers) at a price of \$2.50 per share exercisable in varying amounts to December 31, 1976.
100,000	Shares for conversion of \$500,000 promissory notes issued in part payment of the purchase price of North West Commercial Sales Ltd. (See Note 8)
<u>229,700</u>	

## 11. STATUTORY INFORMATION

Remuneration paid during 1971 to directors and senior officers totalled \$273,279.

## 12. CONTINGENT LIABILITIES

Two of the subsidiaries of the Company, which comprise the Equipment Division, are contingently liable in respect of finance contracts subject to recourse in the amount of \$2,162,000.

Strom Fisheries, Inc. has guaranteed \$2,147,000 of long-term debt of the operating fishing companies in which it holds minority interests.



## *Riddell, Stead & Co.*

CHARTERED ACCOUNTANTS 407 Eighth Avenue S.W. Calgary 2, Alberta

To the Shareholders  
PanCana Industries Ltd.

We have examined the consolidated balance sheet of PanCana Industries Ltd. and its subsidiaries as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of PanCana Industries Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the company's equity in the revenue and expenses of the Fisheries Division (see Note 2 to the consolidated financial statements), we have relied on the report of the auditors who have examined the financial statements of certain of the companies comprising such Division.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

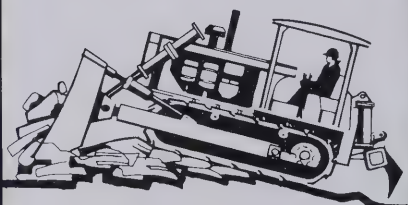
April 14, 1972.

*Riddell, Stead & Co.*



# 1971 review

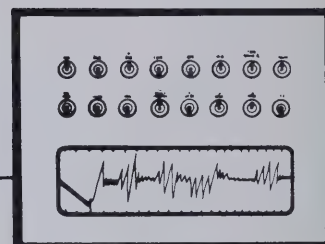
CONSTRUCTION



DRILLING

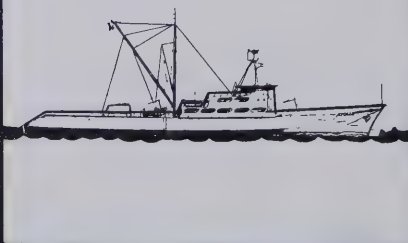


ELECTRONICS



## PAN CANA INDUSTRIES LTD.

FISHERIES



GEOPHYSICAL



HEAVY EQUIPMENT

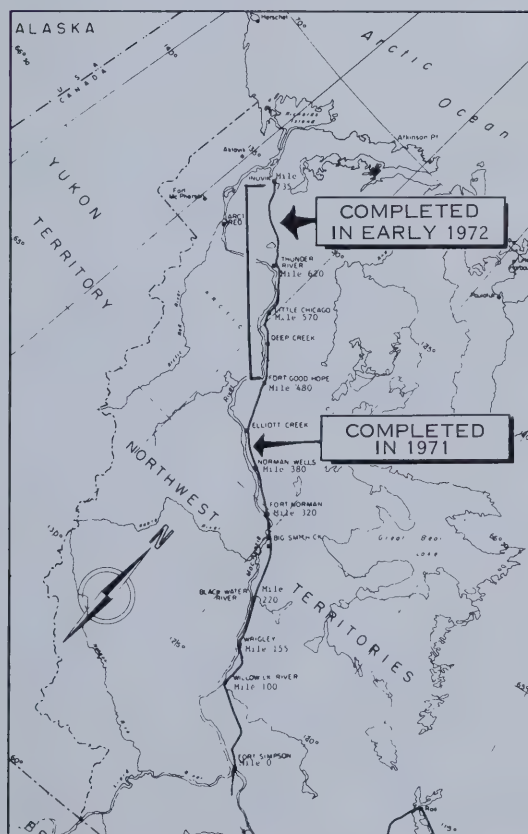




## CONSTRUCTION DIVISION

PanCana Industries' Construction Division, Bain Bros. Construction, achieved an increase in gross revenue in 1971 and contributed to the corporate profits. Primary projects for the year included the construction of 480 miles of the Mackenzie Valley Toll Road from Fort Simpson, N.W.T. to Fort Good Hope, N.W.T., and commencement on an all-weather road in the summer of 1971 for the Alberta Government near Rocky Mountain House, Alberta. Both of these projects continue into 1972.

Bain completed the construction of the remainder of the Mackenzie Valley Toll Road to Inuvik, N.W.T. early in 1972 to a total length of 735 miles. This project is a major construction and transportation accomplishment providing immediate economic benefit to the petroleum industry and to PanCana Industries. With the completion of the road, equipment and supplies may be transported by truck during the winter months through the Mackenzie Valley to the exploration activity centered in the Delta area. Your Company will obtain revenues from toll charges on a ton/mile basis.



Having performed this construction, Bain has gained considerably more experience in operations in the North which will benefit our Construction Division in undertaking future exploration, production and pipeline construction work.

## DRILLING DIVISION

During 1971 Jennings International Drilling drilled 28 wells with a total footage of 215,000 feet. Revenue and profits declined from the peak year of 1970; however, the Division experienced a moderately good year when related to the performance of the industry as a whole.

Management continues to place greater emphasis on wildcat and remote area drilling, which we believe in the long run will enhance the opportunity for more efficient utilization of our drilling equipment and operational profitability.

Rig 9 continues to operate in the area south of Fort Norman, N.W.T. and in early 1972 Rig 1 was moved, under contract, into the area west of Fort Good Hope, N.W.T. By moving both of these rigs into this active drilling area, we expect that the equipment will continue under long term contract.

The movement of Rig 1 into the area west of Fort Good Hope was accomplished by one of the longest overland hauls of drilling equipment ever undertaken in Canada. The rig was moved by a convoy of 40 trucks and transportation of this type was made possible through the construction of the Mackenzie Valley Toll Road by PanCana's Construction Division.

While we do not anticipate any major growth in industry activity, we believe that the contracted backlog for Jennings will provide another satisfactory operational year in 1972.

In the year 1971 your Drilling Division was awarded the much coveted Safety Award from the Canadian Association of Oil Well Drilling Contractors for those companies in the 5 - 10 rig category. Jennings also placed second in the safety competition against the entire Canadian drilling industry which represents approximately 340 rigs. We are proud of this achievement by the Division and such a safety record tangibly demonstrates an efficient operation.



## ELECTRONICS DIVISION

Late in 1971, your Board made the decision to discontinue the manufacturing activities of Western Electronic Systems and to restructure our joint venture with Baker Automation Systems.

Historical losses and high capital investments in this business were principle factors that contributed to this decision. While the sales market is improving, PanCaná believes that more profitable application of our capital can be achieved in other sectors of the Corporation. Western Electronic Systems has built a sound staff of electronic and electrical engineers and a manufacturing facility. Industry acceptance was demonstrated by contracts for services; however, the volume of business was judged insufficient to profitably maintain these in-house services in Western Canada.

Baker Automation Systems, an international specialist in manufacturing, software and installation of supervisory systems can profitably provide this service to a wider international market including Canada. Baker Automation Systems will assume responsibility for management and operations for the Supervisory Control activities of Western Basic Systems, and your Company will assist in their promotional efforts. PanCaná will therefore not be committed to any future funding of the joint venture, but will continue to benefit from Baker's activities in this field.

PanCaná Industries Ltd. has expanded the digital seismic services segment of Western Electronic Systems business. In addition, we continue to represent Texas Instruments as sales representative in Canada for the Digital Field Systems. These two activities have historically been profitable and will continue to contribute to earnings in the future.

The losses sustained in the Electronics Division have adversely affected total corporate profits for 1971 and prior years. This loss in 1971 was 11¢ per share. PanCaná may recover in the future up to approximately \$350,000 of losses through commission on all sales made by Baker Automation Systems in Canada, Australia, South Africa and the Arctic North Slope for a period of fifteen years. PanCaná also retains full ownership of the in-house developed WES 2000 Supervisory Control System which can be marketed through Baker Automation Systems or other interested parties.

## FISHERIES DIVISION

PanCaná made a major acquisition in 1971 in the purchase of Strom Fisheries from Tacoma Boatbuilding Co., Inc. of Tacoma, Washington. During the year we informed the shareholders of our offer to purchase Tacoma Boatbuilding and its subsidiaries; however, as a consequence of unfavourable United States tax implications related to the Tacoma shareholders, this offer was rejected.

Your management negotiated to acquire Strom Fisheries from Tacoma for a total consideration of 550,000 shares of PanCaná stock, and Strom Fisheries became a wholly-owned subsidiary of PanCaná for the full year of 1971.

The principal assets of Strom Fisheries are their 15 - 20% equity interest in four 1400-ton vessels and 10% equity interest in one 1900-ton vessel. The majority interest in the 1400-ton vessels is held by an international consumer food and fish canning industrial complex. Ownership of the 1900-ton Apollo, the largest tuna fishing vessel in the world, is held by various financial investors who have direct association with the tuna fishing industry. Each of these boats represent a capital investment of between 3 million and 3.5 million dollars. These tuna vessels are highly mechanized, efficient and have greater catch handling capability than most boats of similar size in the world fleet.

During 1971 the Apollo had its first complete year of fishing, whereas two of the 1400-ton class vessels each made one trip. The fishing grounds for these vessels are in international waters off the west coast of South America, the west coast of Africa, and in the mid-Pacific. During 1972 it is anticipated that all vessels will have a full year (four trips) of fishing and their contribution to the revenue and profits of PanCaná are expected to be substantial.

The world demand for tuna has been increasing rapidly and is reflected in an increasing premium price paid for the catch. This fleet represents a "supermarket" type of fishing operation, and the highly sophisticated nature of the vessels, their great range and large tonnage-carrying capacity, takes them out of the class of the small fishing vessels. We believe that these vessels are of ideal size, speed and design for fishing international waters and the records for the first year's operation give us optimism as to the financial success of this venture.



With the acquisition of Strom Fisheries we have gained experienced and able management in the person of Mr. Arnold Strom, President of Tacoma Boatbuilding Co., Inc., and his associates. Mr. Strom's knowledge of the fishing industry and the people who make it function is international in scope.

PanCana, through this purchase, obtained full Canadian rights to the construction design of the "super seiners". Construction of additional vessels in Canadian boat yards is a distinct possibility open to us.

The Oilfield Services business has historically a pattern of winter operations which has caused significant drops in revenue and cash flow through the summer months. Strom Fisheries Inc., provides a more even revenue picture which will be of benefit to your corporation. It is significant that during the first year, 1971, Strom Fisheries made a positive contribution to the earnings of PanCana.

The entry by PanCana Industries into the tuna fishing business is a diversification from the concept of coordinated oilfield services, heavy equipment and construction. However, we are certain that this decision will benefit the Company in both the short and long term.

## GEOPHYSICAL DIVISION

While revenue for the year approximated that of 1970, the Division recorded an operational loss for the year under review.

A major portion of the deficit was attributable to the one-time expense incurred in mobilizing two geophysical crews into the Northwest Territories where much of the current and future operations of the Division will be centered. These costs were completely expensed against income in 1971; however, increased work in the area in the 1972 first quarter will prove the wisdom of this move.

We are optimistic that Northern Geophysical will again make a significant profit contribution to PanCana Industries in 1972. Contracted backlog for geophysical work in early 1972 is the largest in the Company's history and we believe that the first quarter earnings contribution will be substantially higher than in the previous year. We have also planned substantial cost reductions in the

second and third quarter of 1972 to reduce the erosion of first quarter earnings which costs have historically been a problem to the geophysical industry.

During 1971 Northern expanded its services to include soil testing and core drilling. A large contract was awarded and profitably completed in the winter along a proposed pipeline route in the Mackenzie Valley. Opportunities for expansion of this service are favourable.

## HEAVY EQUIPMENT DIVISION

Gross income for the Heavy Equipment Division increased by more than 30% over the previous year, with expansion of operations in both Edmonton and Vancouver contributing to this growth. Profits from this Division were approximately equal to those of 1970.

The market for heavy earthmoving, road maintenance, logging, mining and forestry equipment continues to expand in Western Canada. It is estimated that the used equipment market exceeds \$250,000,000 per year in the territory covered by our Division. With the large inventory of late model equipment for sale and lease and aggressive management in purchasing and sales, North West and Northland are expected to contribute further to the growth of PanCana.

The maintenance and repair shops of the Edmonton and Vancouver offices form a vital part of this efficient operation, and these facilities provide major overhauls, quick repairs and custom modification on all of our equipment. Enlargement of the shops and office facilities in both Edmonton and Vancouver is contemplated in 1972 to meet expanded sales and to provide more efficient working conditions. Plans are underway to move our Jennings International Drilling facilities in Edmonton to property adjacent to the North West Commercial Sales shops. This will increase efficiency in repairs and also make better utilization of the land now owned by North West.

The joint venture participated in by this Division in Quebec under the name of Dorval Tractor, contributed to the profits in 1971.



## OIL AND GAS AND MINERALS

This activity represents a very small part of the total business of the Company. During the year we received and accepted a favourable offer for the purchase of our properties in the Virden area of Manitoba. At year end we were negotiating and have subsequently signed a contract for the sale of production from our gas properties in the Minburn area of Alberta.

We are not anticipating any great increase in oil and gas activity although we may take advantage, from time to time, of the opportunities which may arise for further investment.

No funds were expended in 1971 on our copper prospect in the Bathurst area of N.W.T.

## PIPE LINE OPERATIONS

In 1971 your Company entered into a joint venture with Associated Pipe Line Contractors Inc. of Houston, Texas under which PanCana owns 51% and Associated 49% of a new company, PanCana-Associated Contractors Ltd.

Officers for the new company have now been established in Calgary, Alberta under the direction of Mr. William Daniels, Vice-Presi-

dent and General Manager. Mr. Neil Story has been appointed Assistant General Manager and Mr. John Coppock, Field Superintendent.

Canadian requirements for pipeline construction both in the near and long range offer excellent revenue and profit opportunities. One market survey estimates that 100,000 miles of transmission and field gathering lines will be required in the 1970 to 1980 period, and your Company is vigorously pursuing this expanded market.

Associated Pipe Line Contractors has had more than twenty years' experience in pipeline construction and has Land, Marine, Double Joint and Hydrostatic Testing Divisions. In the past five years they have constructed more than 2,000 miles of "large diameter" pipeline. This capability supported by two of our operating divisions in related fields provides the foundation for a successful entry into this field.

To date, PanCana-Associated Contractors have profitably completed one river crossing project in Quebec, and we anticipate follow-up work in this area. We have also been invited by the transmission companies to bid major projects for construction in the summer of 1972.

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**LEGAL COUNSEL:**

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**AUDITORS:**

Riddell Stead & Co.  
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**SHARES LISTED:**

Common shares listed on Toronto Stock Exchange

**DIVISION OFFICES:**

Bain Bros. Construction  
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Edmonton, Alberta

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Western Electronic Systems  
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Calgary, Alberta

North West Commercial Sales Ltd.  
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Edmonton, Alberta

Northland Commercial Sales Ltd.  
8310 Main Street,  
Vancouver, British Columbia

Northern Geophysical Ltd.  
5911 - 5th Street S.E.,  
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Strom Fisheries Inc.  
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Tacoma, Washington 98421

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